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Citation for published version:

Gorbachev, O & O'Flaherty, B 2009, *Olga Gorbachev on the Volatility of Housing*. Edinburgh School of Economics Focus Paper Series.

Link:

[Link to publication record in Edinburgh Research Explorer](#)

Document Version:

Publisher's PDF, also known as Version of record

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THE UNIVERSITY of EDINBURGH

Focus paper

**School of
Economics**

www.econ.ed.ac.uk

Volatility of Housing **by Olga Gorbachev (University of Edinburgh) and Brendan O'Flaherty (Columbia University)**



The aim of the project is to develop a theoretical framework where homelessness arises due to various economic and social factors that vary over time. The ultimate goal is i) to understand whether homelessness spells, entrances and exits could be predicted and if so what information is necessary; and ii) to design and evaluate a homelessness prevention programme in a changing and uncertain environment. Examples of the questions we want to answer are: Should it be made easier for people to borrow money so that they can get out of homelessness, or will such borrowing allow people to over-consume today and so fall into homelessness tomorrow? Should precautionary savings be encouraged so that people have cushions to withstand future shocks, or will savings just delay entry into homelessness? What interventions will affect the probability of becoming homeless and how will they affect behaviour? How will interventions affect incentives to save and to consume before homelessness prevention programmes kick in?



Olga Gorbachev was a lecturer at the University of Edinburgh. Her research encompasses a broad range of topics, from household level consumption volatility to industry level volatility of production and employment. Resolving the reasons underlying the increase in idiosyncratic shocks to both income and consumption, and the role played by financial innovation, are the key components of Olga's research agenda on economic volatility and welfare.

This article was subsequently published in: *American Economic Review*: Vol. 101 No. 5 (August 2011).

In this project, we are particularly interested in the dynamic aspect of homelessness. According to Pleace (1998), "Single homelessness and rough sleeping are never one thing or another, sometimes the structural factors seem all-important, and sometimes it is relationships breaking down, loss of a job or a host of other factors that seem almost to be unique to each individual who experiences homelessness... Instead of being confronted by patterns, clear relationships and shared characteristics, there is the impression of variation above all else, rather than a central tendency." We will be applying the mathematical



tools that were invented to analyze dynamic processes like this, albeit in different contexts (the physics of particle motion and behaviour of financial markets).

Although we will be concentrating on individual life experiences and individual behaviour, our work is entirely compatible with structural or critical realist views of homelessness. We will look here at how individual shocks translate into episodes of homelessness, and what the distribution of those shocks implies for the distribution of homeless spells. Thus our work leads naturally to questions about what determines the distribution of shocks. In particular, we will investigate how institutions empower poor people to deal with the shocks that they face.

Our analysis on the relationship between institutions and homelessness may have important policy implications. Policy-makers in many countries have shown rising interest in homelessness prevention—intervening before people become homeless or early in a homeless spell. Tackling and preventing homelessness is the goal of the UK government, and it has adopted ambitious objectives for reductions of rough sleeping and families in temporary accommodation. In the

US, “homelessness prevention and rapid rehousing” received one of the largest appropriations of any social service programme in the 2009 economic stimulus package in the US (the American Recovery and Reinvestment Act).



To understand the effects of homelessness prevention programmes, we have to understand how homelessness fits into people's lives. Most homeless people are homeless for only a small fraction of their lives. In the US, based on the AHAR data, there were an estimated 704,000 (or a little over 0.2% of the US population) sheltered homeless persons at some time during the three-month period from February to April 2005. (The median shelter stay for a single adult in 2007 was 15 days.) This three-month estimate is more than twice as large as the estimate of sheltered homeless persons on an average day during this period. This means that there is substantial turnover in the people who are using homeless residential services. The study by Link, Susser, Phelan, Moore and Struening (1994) estimated that 14 percent of the U.S. population (26 million people) had been homeless at some point in their lifetimes and about five percent (8.5 million people) had been homeless in the previous five years (1985-1990). Nationally, approximately 500,000 children aged 0-5 years old experience homelessness in the course of a year. (Urban Institute, 2000). Homeless spells of many years' duration do occur, and we are very concerned about such spells. But even a decade is not the majority of most people's lives. There is a time before becoming homeless and usually a time after leaving homelessness.

In a larger context, our research addresses the design of a social safety net. Most work on this issue has been done in the US, which has a different safety net from the UK. In both nations income and

consumption volatility have risen since 1980 (as has homelessness, although we are agnostic about a connection between the two trends), but low-income housing programmes work very differently in the US and the UK. Households must usually wait a long time to enter them, and once in, they stay for a long time. Shelters are easy to get into, and for most households, stays are shorter than assisted housing stays. But shelters cost far more per day, and probably are less valued by residents. In the UK, council housing is like public housing in the US in that long waiting lists are common, but housing benefits are an entitlement. We ask how this makes a difference in the dynamics of people's lives and what those differences imply about prevention and rehousing policy.

Most previous literature in economics about homelessness has been static. Theoretical models have studied what determines the steady-state point in time (PIT) count of homeless people. Most of the empirical literature in the US approaches the same question, looking for empirical determinants of PIT counts in cross-sections of cities. Three empirical papers (Cragg and O'Flaherty 1999; O'Flaherty and Wu 2006, 2008) have followed the New York City shelter population over time, but the observations in these papers are PIT shelter populations: they do not follow individuals.

By contrast, the literature outside economics abounds in longitudinal microdata, and many researchers study homelessness as part of the life-course. “How did you become homeless?” is a natural question for researchers to ask, even though it seems never to have occurred to economists. Shinn et al (1998) for instance follow homeless families



in New York City for a long period of time, both before and after their shelter experiences. The main way that interventions like Housing First are studied is to follow individuals in a treatment group and a control group over an extended period of time; the papers that do this are too numerous to cite.

Thus by looking at homelessness as part of a dynamic process under uncertainty, we are moving economics closer to psychiatry, social work, and public health.

Published in
American Economic Review: Vol.
101 No. 5 (August 2011)

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